

**REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA**

**A REVIEW OF SOME ADMINISTRATIVE FUNCTIONS
OF THE CALIFORNIA STATE UNIVERSITY**

**A Review of Some Administrative Functions
of the California State University**

F-050, March 1991

**Office of the Auditor General
California**



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March 13, 1991

F-050

Honorable Robert J. Campbell, Chairman
Members, Joint Legislative Audit Committee
State Capitol, Room 2163
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning some administrative functions of the California State University.

We conducted this audit to comply with Item 6610-001-001(8) of the "Supplemental Report of the 1990 Budget Act."

Respectfully submitted,

A handwritten signature in cursive script, reading "Kurt R. Sjoberg".

KURT R. SJOBERG
Auditor General (acting)

Summary		S-1
Introduction		1
Audit Results		
Chapter 1	The Budget of the California State University and Supporting Detail Provide Adequate Information on Administrative Funding for the Areas We Reviewed	7
Chapter 2	We Found No Evidence That the California State University Has Provided Inappropriate Funding for Administrative Purposes at the Systemwide Office	13
	Recommendation	18
Chapter 3	The California State University’s Board of Trustees Has Not Consistently Complied With Open Meeting Laws	19
	Recommendations	24

Chapter 4	The Office of the Chancellor Appears To Have Adequately Administered Support for the University House Except for the Employment of the Maid	25
	Recommendation	29
Chapter 5	Expenditures of the California State University Foundation Appear To Have Met the Educational Mission of the California State University	31
	Recommendation	37
Response to the Audit	California State University	39

Summary

Results in Brief The California State University (CSU) has adequate supporting documentation for the administrative budgets of the areas that we reviewed. Further, we found no evidence that CSU has inappropriately transferred nonadministrative funds to provide funding for administrative purposes at the systemwide office, including the Office of the Chancellor (Chancellor's Office). However, the Board of Trustees (trustees) has not always used closed meetings appropriately. The expenditures of CSU and the California State University Foundation (foundation) for the State University House (University House) generally complied with applicable CSU policies and procedures, but we did find one instance in which CSU did not comply with its own procedures when it arranged for the foundation to hire a maid for the University House. During our review, we noted the following specific conditions:

- CSU's budget and supporting detail provide adequate information on the funding of the management and supervisory employees, the Chancellor's Office administration, the systemwide provisions, and the executive housing and entertainment allowances;
- We found no evidence that CSU has provided inappropriate funding for administrative purposes at the systemwide office; however, CSU did omit some budget transfers from its required reports;
- The trustees have not always used closed meetings in accordance with the Bagley-Keene Open Meeting Act, but they have made progress in complying with the act;

- The Chancellor's Office failed to follow its personnel, budgetary, and normal contract procedures when it arranged for the foundation to hire a maid for the University House; and
- The foundation expenditures appear to have met the educational mission of CSU; however, the Chancellor's Office has not regularly performed a review of the foundation's compliance with CSU's policies and procedures.

Background

Managed by 24 trustees who appoint the chancellor, CSU has 20 campuses and a systemwide office consisting of six entities, including the Chancellor's Office. In the fall of 1989, CSU had approximately 360,000 students and 20,500 faculty. The foundation serves the Chancellor's Office and CSU in accomplishing the educational mission of CSU. The University House is the official residence of the Chancellor.

**CSU's Budget
Schedules
Adequately
Support
Administrative
Funding
of the Areas We
Reviewed**

Our review of the budget schedules for management and supervisory employees, the Chancellor's Office administration, the systemwide provisions, and the executive housing and entertainment allowances, disclosed that CSU's budget is supported by detailed schedules that provide an opportunity for adequate scrutiny of the administrative funding included in the budget. In addition, CSU has correctly calculated the number of faculty positions based on the funding provided by the budget acts of fiscal years 1987-88 through 1989-90.

**We Found No
Evidence of
Inappropriate
Administrative
Funding
at the
Systemwide
Office**

We did not identify any inappropriate transfers of nonadministrative funds for administrative purposes at the systemwide office, although CSU did omit some budget transfers from its required reports. Further, CSU has not used blanket positions to hire any unauthorized management and supervisory personnel paid more than \$4,000 a month, the systemwide office's expenditures have decreased, and its personnel years have grown at a slower rate than those of CSU's campuses. These conditions offer evidence that CSU has not provided inappropriate funding for administrative purposes.

**The Trustees
Have Not
Consistently
Complied With
Open Meeting
Laws**

The trustees have used closed meetings to discuss issues not allowed by the Bagley-Keene Open Meeting Act. Specifically, the trustees inappropriately discussed compensation for CSU executives, campus related matters, and policy issues in closed meetings. Further, the trustees did not always follow the agenda of topics they had announced to justify closing some meetings, and the Chancellor's Office has not used a consistent method to keep minutes of closed trustees' meetings. The trustees resolved on April 20, 1990, to reaffirm their commitment to complying with the Bagley-Keene Open Meeting Act and have made progress.

**Administration
of University
House
Support
Appears
Adequate
Except
for the Maid's
Employment**

The Chancellor's Office failed to follow its personnel, budgetary, and normal contract procedures when it arranged for the foundation to hire a maid for the University House. From fiscal year 1987-88 through 1989-90, the Chancellor's Office reimbursed the foundation approximately \$62,000 for some of the costs of the University House maid. We did not identify any other weaknesses in the Chancellor's Office's administration of University House support.

**The
Foundation's
Expenditures
Appear To
Have Met
CSU's
Educational
Mission**

The foundation has been established as a nonprofit corporation whose mission is to enhance the effectiveness of CSU. From fiscal year 1987-88 through 1989-90, the foundation has grown primarily because of an increase in contracts, grants, and donations it administers for educational and research projects. The foundation earned fees for administering these contracts and grants and appears to have appropriately used these fees to pay administrative costs, provide discretionary spending for the chancellor, and pay University House expenditures. However, the Chancellor's Office has not regularly performed a review of the foundation's compliance with CSU's policies and procedures.

**Recommen-
dations**

To ensure that it processes budget transfers in accordance with state laws, the California State University should include in its quarterly reports all required budget transfers.

To improve its compliance with the Bagley-Keene Open Meeting Act, the Board of Trustees should take the following actions:

- Discuss in closed meetings only those issues allowed by the act;
- Address in closed meetings only the topics announced to justify closing the meetings;
- Ensure that minutes are taken for each closed session and are kept in a minute log; for meetings that are cancelled, the Office of the Chancellor should note that condition in the minute log; and
- Continue with their current efforts to comply with the Bagley-Keene Open Meeting Act.

To ensure that expenditures in support of the State University House comply with state regulations, the Chancellor's Office should follow its personnel and budgetary procedures for establishing and appointing employment positions and should follow its normal contract procedures when procuring services.

To ensure that the expenditures of the California State University Foundation meet CSU's educational mission, CSU should regularly perform internal compliance reviews of the foundation.

**Agency
Comments**

The California State University agrees with the results of our review concerning its budgeting practices and policies. In addition, CSU accepts and agrees to implement our recommendations concerning quarterly reports of all budget transfers, improved compliance with the Bagley-Keene Opening Meeting Act, compliance with its normal control procedures when administering expenditures in support of the State University House, and the regular performance of a review of the California State University Foundation's compliance with CSU's policies and procedures.

Introduction

In 1960, the California Legislature passed the Donahoe Higher Education Act of 1960 to create the California State Colleges. In 1972, the system became the California State University and Colleges, and, in 1982, the California State University (CSU). CSU has 20 campuses and the systemwide office, which comprises six entities, including the Office of the Chancellor (Chancellor's Office). CSU's budget for fiscal year 1990-91 is \$2.8 billion. In the fall of 1989, CSU had approximately 360,000 students and 20,500 faculty, making it the largest system of senior higher education in the country.

CSU is managed by the Board of Trustees (trustees), which meets every other month. The governor appoints 18 trustees, including a student and faculty member. The CSU Alumni Council appoints another, and the five additional trustees are ex-officio members: the governor, the lieutenant governor, the speaker of the assembly, the state superintendent of public instruction, and the chancellor of CSU.

The trustees appoint the chancellor, who is the chief executive officer of the CSU system, and they appoint a president for each campus. The president is the chief executive officer of the campus. The trustees have delegated to the chancellor the responsibilities appropriate for the chief executive officer of the system. In fulfilling these responsibilities, the chancellor and the central office staff, collectively referred to as the Chancellor's Office, coordinate implementation of the trustees' policy and provide systemwide management of CSU in such areas as academic affairs, business affairs, faculty and staff relations, governmental affairs, general counsel, and university and public affairs. The Chancellor's Office is located in Long Beach.

Annually, the Budget Planning and Administration (BPA) unit within the Chancellor's Office develops the initial trustees' support budget for the CSU system, which is the formal request for the funding needed to operate CSU's 20 campuses and its systemwide office. After the trustees' approval, the Chancellor's Office makes final adjustments to the budget, such as those due to staff benefit rate or student enrollment changes, and then submits the budget to the Department of Finance for incorporation into the governor's budget.

The California State University Foundation (foundation) was established as a nonprofit corporation in 1962 and operates under the supervision of the Chancellor's Office. Its purpose is to enhance the effectiveness of CSU in accomplishing its educational mission. The foundation also assists the Chancellor's Office and campuses in implementing and sustaining fund-raising for multicampus programs and foundation operations. In the 1989-90 fiscal year, the foundation had a budget for its general operating fund of approximately \$442,000.

The State University House (University House) was given to the foundation in December 1972. In January 1973, the foundation transferred ownership of the University House in trust to CSU's trustees. Located in the Bel Air neighborhood of Los Angeles, the University House is the official residence of the chancellor and hosts CSU's systemwide functions and activities.

**Scope and
Methodology**

The Supplemental Report of the 1990 Budget Act requests that the Office of the Auditor General audit the administrative portion of the CSU budget for fiscal years 1987-88 through 1989-90.

To determine whether CSU's budgeting practices allow for the adequate scrutiny of administrative funding and positions, we reviewed the way CSU prepares budgets for its management and supervisory employees, for the administration of the Chancellor's Office, for CSU's systemwide provisions, for the University House, and for executive housing and entertainment allowances. We

then reviewed the budget submitted to the trustees and traced information for these areas to its supporting schedules. In addition, we reviewed the method by which CSU calculated the faculty positions budgeted to each campus.

To determine the extent that CSU has transferred nonadministrative funds to pay for administrative positions or other administrative benefits or projects at the Chancellor's Office, we identified budget augmentations to the Chancellor's Office budget and determined whether the funds were used with a purpose consistent with their initial budget designation. Further, we reviewed whether CSU reported budget augmentations to the appropriate control agencies.

To determine the extent to which CSU may have been redirecting funds for temporary positions to permanent administrative positions, we reviewed CSU's use of blanket positions to provide funding for permanent management and supervisory employees.

To determine whether the systemwide office has grown at the expense of the campuses, we compared the growth in the actual expenditures and personnel years of the systemwide office and campuses during fiscal years 1987-88 through 1989-90.

To determine the extent to which CSU's trustees used closed meetings to discuss executive compensation and other inappropriate issues, we reviewed the available minutes of closed trustees' meetings that took place between July 1, 1987, and September 30, 1990, the period covered by our review. We then analyzed these minutes to determine whether any of these meetings should have been open to the public in accordance with the Bagley-Keene Open Meeting Act.

To determine whether CSU adequately budgeted and administered University House expenditures in accordance with CSU's procedures, we reviewed the University House's budget and budget augmentations, and we reviewed selected University House expenditures, the purpose of CSU's contracts with the foundation, and employee travel expense claims and overtime records.

To determine whether expenditures of the foundation were appropriately used for the educational mission of CSU, we reviewed the foundation's expenditure policies for compliance with guidelines established by CSU's trustees, and we reviewed the foundation's contracts with CSU to determine whether the purpose of the contracts met the educational mission of CSU. We also reviewed the independent auditor's reports and workpapers for fiscal years 1987-88 through 1989-90 to identify material weaknesses in the foundation's system of internal controls or to identify noncompliance with CSU's policies and procedures.

To determine compliance with CSU's policies and procedures, we reviewed the foundation's policies for budgeting and administering funds for the chancellor's discretionary spending account and support of the University House, and we reviewed selected expenditures from the general operating fund, the chancellor's discretionary account, and the University House account.

We also analyzed the growth of filled management and supervisory positions from fiscal year 1987-88 through 1989-90 to determine whether the number of management and supervisory employees at CSU have grown significantly. CSU uses the Management Personnel Plan to classify its management and supervisory employees in accordance with the Higher Education Employer-Employee Relations Act. We determined that from fiscal year 1987-88 through 1989-90, the number of management and supervisory employees in the Chancellor's Office increased by 5 personnel years, from 168 to 173, and that the number of campus management and supervisory employees decreased by 15 personnel years, from 2,067 to 2,052. Since the total number of management and supervisory personnel years was 2,235 in fiscal year 1987-88 and decreased by 10 positions to 2,225 in fiscal year 1989-90, we concluded that further analysis of their growth was unnecessary.

To determine whether the Chancellor's Office executives were receiving any inappropriate perquisites, we reviewed executive travel expense claims for compliance with state regulations, executive equipment requests to ensure that equipment purchases were properly approved, and executive contract requests to ensure that no services were provided that directly benefited a CSU executive. We did not identify any perquisites provided to executives of the Chancellor's Office that could be considered not in the best interest of CSU. However, as noted on page 14 of this report, trustees revoked the decision of the Chancellor's Office that allowed the use of automobiles for the six vice chancellors. We also reviewed expenditures from the chancellor's community relations fund for compliance with CSU's policies, and we reviewed expenditure reports in support of the vice chancellors' entertainment allowances. We found that CSU generally has reimbursed travel for executives of the Chancellor's Office at allowable state rates.

Chapter 1 The Budget of the California State University and Supporting Detail Provide Adequate Information on Administrative Funding for the Areas We Reviewed

Chapter Summary

The budget policies and practices of the California State University (CSU) allow for the adequate scrutiny of the administrative funding included in its budget for the areas we reviewed. We reviewed the budgets of the management and supervisory employees, the Office of the Chancellor's (Chancellor's Office) administration, the systemwide provisions, and the executive housing and entertainment allowances and determined that CSU has schedules supporting the amounts it included in its budgets for fiscal years 1987-88 through 1989-90. In addition, CSU has correctly calculated the number of faculty positions as determined by a methodology it uses to provide staffing based on the funding provided in the budget acts.

Management and Supervisory Employees Budget

In fiscal years 1987-88 and 1989-90, the budget acts placed restrictions of approximately \$141 million and \$168 million, respectively, on CSU's spending for management and supervisory employees, not including compensation increases. We compared CSU's budget schedules for management and supervisory employees for fiscal years 1987-88 and 1989-90 to the restrictions designated in the related budget acts and determined that these schedules support the positions and the total amount of the management and supervisory employees budget included in the budget acts of fiscal years 1987-88 and 1989-90. These schedules are in adequate detail to show the actual number of management and supervisory positions CSU budgeted for the Chancellor's Office and each campus. Although the fiscal year 1988-89 Budget Act did not include these same restrictions on expenditures for

management and supervisory employees, we did observe that CSU had schedules to support the fiscal year 1988-89 budget similar to those for fiscal years 1987-88 and 1989-90. Because CSU includes the funding for the management and supervisory employees with the funding for all other CSU employees in the budget submitted to the Board of Trustees (trustees), we did not verify that this budget contained the same funding for management and supervisory employees included in the schedules we tested for fiscal years 1987-88 and 1989-90. However, we found no evidence to suggest that the management and supervisory employees' funding was not properly included in the budget submitted to the trustees.

**Chancellor's
Office
Administration
Budget**

The Chancellor's Office administration budget includes such functions as executive management, centralized budgeting and accounting, and the administration of campuswide programs. The Chancellor's Office prepares schedules with its requested budgets for authorized positions and operating expenses such as telephone use, utilities, and insurance premiums. We reviewed these schedules for fiscal years 1987-88 through 1989-90 and determined that these schedules supported the Chancellor's Office administrative funding and the number of positions CSU included in the budgets submitted to the trustees.

**CSU's
Systemwide
Provisions
Budget**

CSU's systemwide provisions are programs and support funds that are not initially budgeted by the campuses but will be subsequently allocated directly to campuses or used by the Chancellor's Office to meet systemwide expenses. Examples of programs for which the CSU allocates systemwide funds to campuses include the program to improve student writing skills, the administrative fellows program, and expenditures for special repairs and deferred maintenance. Since these programs and expenditures are dependent on enrollment, student needs, and campus needs, it is difficult for the CSU to determine an initial budget for these programs and expenditures at each campus. It is also more efficient for each campus, rather than the Chancellor's Office, to pay employees

and vendors for these programs. Systemwide programs for which CSU keeps the funds and makes payments itself include bond payments and employee benefit programs such as unemployment compensation, dental care for annuitants, and disability compensation. It is more efficient for the Chancellor's Office to make the payments to vendors for these services that benefit all of the campuses.

We reviewed CSU's schedules supporting the systemwide provisions budgets for fiscal years 1987-88 through 1989-90 and determined that these schedules support the budgets submitted to the trustees. For example, in fiscal year 1989-90, CSU requested seven new positions and \$1,007,000 for a CSU Center for Biotechnology Education and Research. CSU documented this request on a standard budget change proposal form and included details on the types of positions required and the funding needed for operating expenses and equipment. In addition, other budget requests, such as price increases for utilities and other goods and services, were supported by analysis of the price changes in various goods and services.

**The Budget for
Executive
Housing
and
Entertainment
Allowances**

Housing allowances are paid to campus presidents who are not living in a residence provided by CSU, and the entertainment allowances enable executives to pay for entertainment expenses while on official activities. The trustees determine the executive housing and entertainment allowances. The housing allowances vary depending on campus location. For example, the president at CSU Dominguez Hills in Los Angeles receives a housing allowance of \$700 a month, whereas the president of CSU Humboldt in Arcata receives \$300 a month. The chancellor normally resides in the State University House (University House); however, the current acting chancellor does not live at the University House and, therefore, receives a \$1,200 per month housing allowance. All presidents and the chancellor receive the same entertainment allowance, \$3,600 a year, whereas vice chancellors at the Chancellor's Office are each allowed to receive \$990 a year.

Since CSU does not explicitly state the amount of funding for executive housing and entertainment allowances in the budget submitted to the trustees, we did not verify that the same allowances approved by the trustees were included in that budget. However, we did verify that CSU provided the chancellor and vice chancellors with the correct entertainment allowances during fiscal years 1987-88 through 1989-90 for those who received the allowance. We analyze the University House budget in more detail in Chapter 4.

**CSU Budgeted
Faculty
Positions
According to
Its Method**

Not only does CSU appear to have adequate supporting detail for the administrative portions of its budget, it has also accurately calculated faculty positions budgeted for each campus from fiscal year 1987-88 through 1989-90 based on the funding provided in the budget acts. CSU uses a methodology known as the Mode and Level Method. This method bases the number of budgeted faculty positions on a variety of factors, including the instructional mode of the courses for which faculty are needed (whether lecture, laboratory, or another format), the instructional level of the courses (whether lower division, upper division, or graduate level), and shifts in student interests. When it determines the number of faculty positions needed, CSU allocates the final budget for faculty positions to each campus. Campus management then allocates these positions to specific campus departments. However, CSU directs the campuses not to impair or reduce the ability to properly instruct its students when implementing the State's budget cuts.

CSU began using this methodology in fiscal year 1978-79 to determine the number of budgeted faculty positions. We did not test the reasonableness of this methodology. Rather, using the data generated from this method, we verified for fiscal years 1987-88 through 1989-90 that CSU properly calculated the number of faculty positions budgeted for each campus. CSU's accurate calculation of budgeted faculty positions offers further evidence that its budgeting procedures and practices are adequate.

Conclusion During fiscal years 1987-88 through 1989-90, the budgets that the California State University submitted to the Board of Trustees were supported by a variety of schedules, budget change requests, and calculations. Based on our review, this supporting detail is sufficient to allow for the adequate scrutiny of the number of administrative positions and funding for the budgets of management and supervisory employees, for the Office of the Chancellor's administration, for CSU's systemwide provisions, and for the executive housing and entertainment allowances. Further, CSU has accurately calculated the number of budgeted faculty positions as determined by a methodology that it uses to provide staffing based on the funding provided in the budget acts.

Chapter 2 We Found No Evidence That the California State University Has Provided Inappropriate Funding for Administrative Purposes at the Systemwide Office

Chapter Summary

We found no evidence that the California State University (CSU) has used nonadministrative funds to inappropriately provide funding for administrative positions, benefits, or projects at the Office of the Chancellor (Chancellor's Office) and the other entities within the systemwide office from fiscal year 1987-88 through 1989-90. We reviewed budget transfers between the systemwide office and the campuses, within the systemwide office, and from CSU's systemwide provisions to the systemwide office and the campuses. We did not identify any inappropriate transfers of nonadministrative funds for administrative purposes, although CSU did omit some budget transfers from its required reports. In addition, CSU has not used blanket positions to hire unauthorized permanent management and supervisory employees paid more than \$4,000 a month. During the same period, the systemwide office's expenditures have decreased, and its personnel years have grown at a slower rate than the staff and expenditures of the campuses. These conditions offer evidence that CSU has not provided inappropriate funding for administrative purposes.

Budget Transfers

We reviewed 89 budget transfers from July 1, 1987, to June 30, 1990, and did not identify any inappropriate transfers of nonadministrative funds for administrative purposes. These budget transfers included transfers between the systemwide office and the campuses, transfers within the systemwide office, and transfers from systemwide provisions to the systemwide office and the campuses.

The Vice Chancellors' Automobiles

One example of a budget transfer consistent with state laws and CSU's regulations was a transfer of \$100,000 from excess staff benefits of fiscal year 1988-89 to the Chancellor's Office for the purchase of six automobiles to be used by the vice chancellors. After public criticism, however, the Board of Trustees (trustees) resolved, effective May 1, 1990, to place these automobiles in the Chancellor's Office motor pool and to have the Chancellor's Office transfer \$100,000 from its budget to the funds available for the academic needs of CSU. The Chancellor's Office subsequently transferred these funds. Our review of 89 budget transfers disclosed no other transfers that we believe would be considered not in the best interest of CSU.

Some Budget Transfers Not Reported

CSU omitted 4 of the 26 budget transfers we tested that it should have included in its quarterly reports to the Legislature. These quarterly reports document each transfer between program categories and provide a narrative describing the reason for the transfer. Although CSU reported these four transfers to the Department of Finance in their budget revisions, the budget revisions, unlike the quarterly report, do not include explanations for individual budget transfers. Consequently, the Legislature was not informed of the reason for these four budget transfers. The Education Code, Section 89753, requires CSU to furnish the Joint Legislative Budget Committee with a report of the authorizations given for budget transfers between program categories during the preceding quarter. According to the chief of CSU's Budget Planning and Administration Unit, this omission was due to an oversight by his staff. He has since discussed this issue with his staff to reemphasize proper reporting procedures.

**Use of Blanket
Positions
Was Valid**

CSU has not used blanket positions to hire unauthorized permanent management and supervisory employees paid more than \$4,000 a month. Generally, an authorized position number is assigned to each employee. However, some employees do not have authorized position numbers but are paid from funding available for blanket positions. Blanket positions, which are not to be used on a permanent basis, allow the State Controller's Office to pay individuals who do not have an authorized position number. To determine whether the Chancellor's Office and campuses hired unauthorized management or supervisory employees on a permanent basis and paid them from blanket positions, we identified all management and supervisory employees paid \$4,000 per month or more from blanket positions for 12 months or longer from July 1, 1987, to June 30, 1990. Nineteen employees at ten campuses met these criteria. We analyzed the reasons these employees were in blanket positions for 12 months or longer and found that the reasons were valid for each of the 19. For example, one employee was terminated and later reinstated to his former position. However, since the campus did not have a vacant management and supervisory position available, it appointed the employee to a blanket position until the employee retired.

**The
Systemwide
Office
Has Grown
Moderately**

CSU's systemwide office, comprising six distinct entities including the Chancellor's Office, has grown at a rate slower than the campuses from July 1, 1987, to June 30, 1990. We analyzed the growth in actual personnel years paid for by the general fund and other funds such as the lottery, housing, and parking funds. A personnel year represents the portion of a position expended for the performance of work in one fiscal year. Table 1 provides data concerning the actual growth of the six entities within the systemwide office.

Table 1 Actual Growth in Personnel in the Systemwide Office and Campuses for All Funds Administered by CSU From Fiscal Year 1987-88 Through 1989-90

	1987-88 Personnel Years Expended	1989-90 Personnel Years Expended	Increase (Decrease) in Personnel Years	Percent Change
Chancellor's Office	251.0	255.0	4.0	1.6%
International Programs	12.9	12.3	(0.6)	(4.7)
Statewide Academic Senate	4.6	5.0	0.4	8.7
Computing and Communications Resources	135.6	133.2	(2.4)	(1.8)
Trustees Audit	8.2	10.0	1.8	22.0
Systemwide Library Program	6.3	6.4	0.1	1.6
Total Systemwide Office	418.6	421.9	3.3	0.8
Campuses	33,026.7	35,068.9	2,042.2	6.2
Total CSU System	33,445.3	35,490.8	2,045.5	6.1

Source: California State University financial reports.

The systemwide office grew by approximately 3 personnel years from fiscal year 1987-88 through 1989-90 while the campuses grew by over 2,000 personnel years during the same period. In addition, we analyzed the growth in budgeted positions financed by the general fund. The systemwide office's budget for positions paid for by the general fund increased over this period to accommodate two additional positions, one in the Trustees Audit Office and another in the Statewide Academic Senate Office. According to the initial budget submitted to the trustees, each one was a clerical position to satisfy increased workloads; all other units within the systemwide office budgeted the same number of positions in the general fund during this time. Therefore, the number of employees working at the systemwide office has not grown at the expense of the campuses during the last three fiscal years.

**The
Systemwide
Office's
Expenditures
Have Decreased**

The expenditures of CSU's systemwide office have decreased from July 1, 1987, to June 30, 1990. Table 2 provides data concerning the changes in expenditures within each of the six entities.

Table 2 Actual Growth in Expenditures at the Systemwide Office and the Campuses for All Funds Administered By CSU From Fiscal Year 1987-88 Through 1989-90 (In Millions)

	1987-88	1989-90	Increase (Decrease) in Expenditures	Percent Change
Chancellor's Office	\$ 21.7	\$ 23.1	\$ 1.4	6.5%
International Programs	1.8	2.1	0.3	16.7
Statewide Academic Senate	0.4	0.4	0.0	0.0
Computing and Communications Resources	20.1	17.1	(3.0)	(14.9)
Trustees Audit	0.7	0.9	0.2	28.6
Systemwide Library Program	0.8	0.9	0.1	12.5
Total Systemwide Office	45.5	44.5	(1.0)	(2.2)
Systemwide Programs	23.5	39.3	15.8	67.2
Campuses	1,561.0	1,815.8	254.8	16.3
Total	\$1,630.0	\$1,899.6	\$269.6	16.5

Source: California State University financial reports.

Table 2 shows that the expenditures of the systemwide office have decreased by 2.2 percent from fiscal year 1987-88 through 1989-90, whereas the expenditures to operate the campuses have grown by 16.3 percent during this period. At the same time, the expenditures for systemwide programs grew by \$15.8 million. Systemwide programs are those not initially budgeted by campuses but whose funds are later used to meet campus and systemwide expenditures. These expenditures increased primarily due to payments of approximately \$3.8 million for high technology and energy bonds, of \$1 million for computerized library catalog

equipment, and of \$7.4 million for the contribution of current lottery revenue to the lottery endowment. Therefore, apart from the expenditures of the systemwide programs, the expenditures to operate the systemwide office have decreased compared to the expenditures to operate the campuses during the last three fiscal years.

Conclusion We found no evidence that CSU has inappropriately transferred nonadministrative funds to the Chancellor's Office and other entities within the systemwide office, although it did omit several budget transfers from its required quarterly reports to the Legislature. Further, CSU has not used blanket positions to hire unauthorized permanent management and supervisory employees paid more than \$4,000 a month. During the period covered by our review, the systemwide office's expenditures have decreased, and its personnel years have grown at a slower rate than those of the campuses. These conditions offer evidence that CSU has not provided inappropriate funding for administrative purposes at the systemwide office.

Recommendation To ensure that it processes budget transfers in accordance with state laws and regulations, the California State University should take the following action:

- Include in its quarterly reports to the Legislature all budget transfers that the Education Code, Section 89753, requires.

Chapter 3 The California State University's Board of Trustees Has Not Consistently Complied With Open Meeting Laws

Chapter Summary

The Board of Trustees (trustees) has not consistently complied with the Bagley-Keene Open Meeting Act. From July 1, 1987, through September 30, 1990, the period covered by our review, the trustees inappropriately discussed executive compensation for California State University (CSU) executives in closed meetings. In these closed meetings, the trustees also discussed other issues not allowed by the act. Further, in some of these meetings, the trustees did not always follow the agenda of topics they had announced to justify closing the meetings, and the Office of the Chancellor (Chancellor's Office) has not used a consistent method to record minutes for all closed meetings. The trustees have taken steps to improve their compliance with the act and have made progress.

Closed Meetings About Executive Compensation and Other Issues

The trustees have inappropriately discussed executive compensation, campus related matters, policy issues, and the possibility of a trustees' retreat in closed meetings. Located in the Government Code, Title II, Division 3, Section 11120 et seq., the Bagley-Keene Open Meeting Act governs meetings held by certain state agencies. The Government Code, Section 11120, states that the intent of the Bagley-Keene Open Meeting Act is to ensure that state agencies conduct their actions and deliberations openly. This section provides that state agencies exist to aid in the conduct of the people's business and that the proceedings of state agencies should be conducted openly so that the public may remain informed. The Government Code, Section 11132, prohibits closed sessions except as expressly authorized by the Bagley-Keene Open Meeting Act, and Section 11126 lists the specific

purposes for which closed meetings may be held. The discussion of executive compensation is not expressly stated as one of these purposes. Further, the Government Code, Section 11126.3(a), requires the trustees to state the general reasons and the specific statutory authority for closing a meeting, and Section 11126.3(b) states that in a closed meeting, the trustees may consider only the matters covered in the statement that justifies closing the meeting.

The trustees discussed executive compensation in closed meetings on at least six occasions from July 1, 1987, to September 30, 1990, the period covered by our review. In one of these closed meetings, on September 12, 1989, the trustees discussed raising the salaries of the campus presidents to \$130,000, the vice chancellors' salaries to \$145,000, the executive vice chancellor's salary to \$150,000, and the chancellor's salary to \$195,000. These salaries were effective January 1, 1990. These salary increases were recommended to the trustees by their personnel committee and resulted in raising the executives' previous salaries by approximately \$17,000 (15 percent) to \$59,000 (43 percent). To implement these salary increases, the trustees approved a resolution delegating the authority for raising the salaries of the campus presidents and vice chancellors to the chancellor and the authority for raising the chancellor's salary to the trustees' chair. According to the minutes of a trustees' meeting held to discuss how the January 1, 1990, salaries were determined, the delegation of salary setting has been the trustees' policy for a number of years. Further, according to these minutes, CSU's former general counsel had advised the trustees to not use the open meeting requirements because he felt the collective bargaining process would have been interrupted by disclosing executive salaries. In addition, in this closed meeting and other closed meetings, the trustees discussed deferred compensation, physical examinations, housing, and automobiles as other means of compensating executives.

Because the trustees inappropriately discussed executive compensation in closed meetings, they denied the public an opportunity to provide input on the amount of the salary increases. Following the trustees' decision in a closed meeting to delegate raising executive salaries to the chair and chancellor, CSU was

publicly criticized for these actions. After this public criticism, the trustees resolved to rescind the executive salary increases.

The trustees have inappropriately discussed other campus related matters on at least four occasions in closed sessions. In one of these discussions, according to the minutes of the meeting, the trustees discussed the need for a school of engineering at one campus. The trustees have also inappropriately discussed policy issues on at least nine occasions in closed meetings. For example, the trustees discussed matters of policy such as the role of the personnel committee and methods of improving the presidential search process. In addition, the trustees discussed on at least four occasions the possibility of a trustees' retreat away from the Chancellor's Office and excluding the public. Government Code, Section 11126, does not expressly allow for any of the above topics to be discussed in closed meetings. Because the trustees inappropriately discussed campus related matters, policy issues, and the possibility of a trustees' retreat in closed meetings, the public was not fully informed about matters relating to CSU.

**Trustees Did
Not Always
Follow
Announced
Topics of
Closed
Meetings**

During their closed meetings, from July 1, 1987, to September 30, 1990, the trustees did not always follow the agenda of topics they had announced to justify closing the meetings, as Government Code, Section 11126.3(b), requires. We determined that in 14 of the 21 closed meetings for which they had announced the topic as personnel matters, the trustees discussed other issues. For example, one meeting was announced as personnel matters and was closed under Government Code, Section 11126. However, according to the minutes of the meeting, the trustees also discussed a gift of property, executive compensation, the reorganization of a chancellor's office division, and the trustees' retreat. Because the trustees have sometimes deviated from the announced subject of closed sessions, the public may not have been fully informed about matters relating to CSU.

The acting general counsel states that he is not in a position to comment on the reason the board deviated on occasion from the announced subject of closed meetings held prior to his appointment on July 1, 1990. However, he has observed that public boards in general tend to wander into related subject areas while addressing the announced subject matter of closed meetings.

We also reviewed the trustees' minutes from closed meetings of the Collective Bargaining Committee. We did not identify any instances in which the trustees deviated from the reason announced for these meetings.

**Inconsistent
Methods Used
To Record
Closed
Meetings**

The Chancellor's Office has not used a consistent method to record minutes of all closed trustees' meetings. The Government Code, Section 11126.1, requires the trustees to designate a person to attend each closed meeting and enter in a minute book a record of topics discussed and decisions reached at the meeting. This section provides that the minute book may also consist of a taped recording of the closed meeting. The trustees' policy is to keep minutes of all its meetings. They have placed the responsibility of recording and keeping minutes with the Chancellor's Office. However, the Chancellor's Office has used a variety of methods to record minutes of closed trustee meetings. For example, of 30 closed meetings held from July 1, 1987, through September 30, 1990, to discuss personnel matters, the Chancellor's Office recorded the minutes of 21 meetings in a formal minute book and the minutes of 3 meetings on tape. After we requested the Chancellor's Office to locate the minutes of the remaining six closed meetings, it was able to provide us with notes of the former general counsel for four meetings. However, for two closed meetings, it could not locate any minutes or notes.

Further, for 13 closed meetings of the Gifts and Public Affairs Committee and 11 closed meetings about presidential recruitment and selection held during this period, the Chancellor's Office recorded the minutes of only one meeting in a formal minute

book. After we requested minutes of the remaining closed meetings, the Chancellor's Office was able to provide us with the notes of the former general counsel for all but two of these closed meetings. If the Chancellor's Office does not use a consistent method to record minutes of closed trustees' meetings, it cannot ensure that all closed meetings will be properly recorded.

The Chancellor's Office did record in a formal minute book all minutes of closed Collective Bargaining Committee meetings that were held during this period.

**The Trustees
Have Taken
Steps To
Improve
Compliance**

The trustees have made progress in improving their compliance with the Bagley-Keene Open Meeting Act. The trustees formed an ad hoc committee to review the process they used to determine the January 1, 1990, executive salaries. This committee met in open session on April 19, 1990, and on April 20, 1990, it presented its recommendations to the trustees. The trustees accepted the committee's recommendations with minor changes and then resolved, effective May 1, 1990, to return executive salaries to the December 31, 1989, levels plus a 4.18 percent cost of living adjustment. Further, the trustees resolved to affirm their commitment to openness and to conduct their meetings in open sessions as required by the Bagley-Keene Open Meeting Act unless a justification for a closed session exists. In particular, the trustees intend to establish salary increases for executive employees in open session and to stop delegating authority for executive compensation to others. The trustees have had at least three opportunities to establish salaries of CSU executives since this resolution. In each case, the trustees established the executive's salary in open session.

The trustees also resolved to employ independent counsel for advice relating to open meeting requirements and other issues coming before the Personnel Committee and the trustees. Finally, the trustees resolved that its Personnel Committee will undertake a new study on executive compensation and that discussion of this study will be held in open meetings.

Conclusion The Board of Trustees has not consistently complied with the Bagley-Keene Open Meeting Act. During the period covered by our review, July 1, 1987, through September 30, 1990, the trustees inappropriately discussed in closed meetings certain issues, including compensation for executives of the California State University. Further, during their closed meetings, the trustees did not always follow the agenda of topics they had announced to justify closing the meetings, and the Office of the Chancellor has not used a consistent method to record minutes of all closed meetings. However, the trustees have taken steps to improve their compliance with the act and have made progress.

Recommendations To improve its compliance with the Bagley-Keene Open Meeting Act, the Board of Trustees should take the following actions:

- Discuss in closed meetings only the issues allowed by the act;
- Address in closed meetings only the topics they had announced to justify closing the meetings;
- Ensure that minutes are taken for each closed session and are kept in a minute log; for meetings that are cancelled, the Office of the Chancellor should note that condition in the minute log; and
- Continue with their current efforts to comply with the act.

Chapter 4 The Office of the Chancellor Appears To Have Adequately Administered Support for the University House Except for the Employment of the Maid

Chapter Summary

The Office of the Chancellor (Chancellor's Office) appears to have adequately administered support for the State University House (University House) except for the employment of the maid. The Chancellor's Office failed to follow its personnel, budgetary, and normal contract procedures when it arranged for the California State University Foundation (foundation) to hire a maid for the University House. From fiscal year 1987-88 through 1989-90, the Chancellor's Office used rent revenues from a guest house located on University House grounds to reimburse the foundation for the cost of the maid. However, we did not identify any other weaknesses in the California State University's (CSU) administration of University House support. The Chancellor's Office, the foundation, and private donors spent approximately \$480,000 in support of the University House during fiscal years 1987-88 through 1989-90.

The Chancellor's Office Failed To Follow Its Procedures In Hiring a Maid

The Chancellor's Office failed to follow its personnel, budgetary, and normal contract procedures when it arranged for the foundation to hire the University House maid. CSU's hiring procedures require recruitment to be administered by the CSU Personnel Services Office and require all positions to be established in the budget, with classification and salary level. In addition, normal CSU contract procedures require a contract for costs in excess of \$10,000.

Although hired by the foundation, the maid was essentially an employee of the Chancellor's Office. The maid worked at the University House and took instructions from the chancellor. The chancellor also had the authority to terminate the maid's employment. In addition, from fiscal year 1987-88 through 1989-90, the Chancellor's Office paid approximately \$62,000 of the approximately \$85,000 cost of the maid with rent revenues from a guest house on University House grounds.

In a 1982 memorandum to the chancellor, the general counsel of the Chancellor's Office recommended that the Chancellor's Office use the appropriate employment classifications and hiring procedures of CSU if rent revenues from the guest house were to be used to pay a maid. However, according to the current executive vice chancellor, the Chancellor's Office arranged for the foundation to hire the maid instead of establishing the position as required by CSU's procedures. The current executive vice chancellor stated that because the agreement was reached before his appointment, he was not able to explain why the Chancellor's Office chose the foundation to employ the maid. According to the current executive vice chancellor, no written agreement to support the arrangement to reimburse the foundation for the cost of the maid could be located. If the Chancellor's Office does not follow its personnel, budgetary, and normal contract procedures, it cannot ensure that its expenditures made in support of the University House comply with its own policies and procedures.

**Support of
the University
House Totaled
Approximately
\$480,000**

We examined 48 Chancellor's Office expenditures made for support of the University House and did not identify any inappropriate uses of state funds. The Chancellor's Office and the foundation spent approximately \$395,000 and \$85,000, respectively, for support of the University House during fiscal years 1987-88 through 1989-90. Of the \$85,000 spent by the foundation, approximately \$36,000 was contributed by private donors.

**Table 3 Combined Chancellor's Office and Foundation Support
for the State University House for
July 1, 1987 to June 30, 1990**

	Chancellor's Office	Foundation	Total
Maintenance and Operation Expenditures:			
Grounds maintenance	\$103,003	\$ 2,694	\$105,697
Support	2,399	5,376	7,775
Security	70,721	1,623	72,344
Utilities	1,598	36,218	37,816
Building maintenance-- vendors	50,684		50,684
Building maintenance-- officewide personnel	19,838		19,838
Maid	62,089	21,857	83,946
Miscellaneous		607	607
Total Maintenance and Operation Expenditures	310,332	68,375	378,707
Improvements and Special Repairs Expenditures:			
Plant expansion	52,297		52,297
Special repairs	33,000	16,700	49,700
Total Improvements and Special Repairs Expenditures	85,297	16,700	101,997
Total Expenditures	\$395,629	\$85,075	\$480,704

As Table 3 illustrates, during fiscal years 1987-88 through 1989-90 the Chancellor's Office spent approximately \$310,000 in maintenance and operation expenditures. Of approximately \$103,000 spent on grounds maintenance expenditures, approximately \$92,000 is the cost associated with the grounds keeper. The 1.94-acre lot contains a house of 4,586 square feet built in 1953, a guest cottage with carport, a swimming pool, a bathhouse, and a fenced tennis court. The grounds are extensively landscaped with plants, trees, and shrubs. The security costs are primarily attributable to contracts with the University of California,

Los Angeles, for security patrols of the house grounds. The building maintenance costs include charges for tree trimming and removal services, repairing the buildings and appliances, removing weeds and debris, and repainting the house and surrounding structures, and also include the costs for CSU's maintenance employees to oversee contracted repairs.

The Chancellor's Office spent approximately \$85,000 on improvements and special repairs during fiscal years 1987-88 through 1989-90. These costs are primarily for fencing, lighting, property surveying, and the replacement of the driveway and parking area near the garage. The replaced driveway and parking area consisted of approximately 16,000 square feet. According to CSU's current executive vice chancellor, it was fractured and barely passable.

From fiscal year 1987-88 through 1989-90, the foundation spent approximately \$85,000 in support of the University House. The maintenance and operation costs are primarily for utilities and the portion of the maid's costs not reimbursed by the Chancellor's Office. The cost for special repairs is the cost for renovating the tennis court. According to the Board of Trustees (trustees), from fiscal year 1987-88 through 1989-90, the foundation received approximately \$16,700 from the chancellor and several corporate sponsors to pay the costs to renovate the tennis court and approximately \$19,000 to pay some of the costs of the University House maid and utilities.

**Chancellor's
Office Budgets
for University
House Were
Adequate
Except for
the Maid**

The Chancellor's Office has prepared adequate budgets for University House expenditures except for the costs of the maid, which were not included in the budgets. According to the executive vice chancellor, it is the policy of CSU to budget for recurring expenditures of the University House and to make expenditures for special repairs and improvements from the funds for systemwide special repairs and capital outlay that have not been previously designated for specific projects. (The following figures are approximate.) During fiscal years 1987-88 through 1989-90, the

Chancellor's Office budgeted \$212,000 directly to the University House for grounds maintenance, safety, and building maintenance purchased from vendors and spent \$224,000 for these expenses. In addition, according to the executive vice chancellor, it is CSU's policy to include as part of its larger officewide budgets amounts for the University House support, telephone expenses, and building maintenance. From fiscal year 1987-88 through 1989-90, the Chancellor's Office spent \$24,000 for these expenses. The Chancellor's Office also expended \$65,000 in capital outlay and special repairs funds to replace the driveway and parking area at the University House and \$20,000 to install fences and lighting and to conduct a property survey. These expenses for capital outlay and special repairs were outside of the regular budget for the University House. According to the executive vice chancellor, CSU did not budget for the maid, but limited these expenditures to revenues available from the lease of the guest house on the University House grounds.

Conclusion The Office of the Chancellor appears to have adequately administered support of the State University House. However, the Chancellor's Office failed to follow its personnel, budgetary, and normal contract procedures when it arranged for the California State University Foundation to hire a maid for the University House.

Recommendation To ensure that it adequately administers expenditures in support of the State University House, the Office of the Chancellor should take the following actions:

- Follow its personnel and budgetary procedures for establishing and appointing employment positions. In addition, it should follow its normal contract procedures when procuring services.

Chapter 5 Expenditures of the California State University Foundation Appear To Have Met the Educational Mission of the California State University

Chapter Summary

The expenditures of the California State University Foundation (foundation) appear to have met the educational mission of the California State University (CSU). The foundation has been established as a nonprofit corporation and, based on our review, has operated within the policies and procedures established by CSU's Board of Trustees (trustees). The foundation has grown from fiscal year 1987-88 through 1989-90 as a result of increased revenues from contracts, grants, and donations. The purpose of these contracts, grants, and donations appears to have met the educational mission of CSU. In addition, the foundation appears to have appropriately provided funding for an account used by the chancellor for discretionary spending and appears to have appropriately provided a share of the funding to maintain the State University House (University House). However, the foundation hired a University House maid on behalf of the Office of the Chancellor (Chancellor's Office) and was reimbursed by the Chancellor's Office, an arrangement that did not comply with CSU's personnel, budgetary, and normal contract procedures. In addition, the Chancellor's Office has not regularly conducted reviews of the foundation's compliance with CSU's policies and procedures.

**The
Foundation
Has Been
Established
as a Nonprofit
Corporation**

As the only auxiliary organization providing service to the Chancellor's Office, the foundation was created under General Nonprofit Corporation Law, former Part 1, Sections 9000 to 9802, of Division 2, Corporations Code. The foundation is supervised by the Executive Director of University Development, an employee of the Chancellor's Office, and run by its Board of Directors. The Board of Directors consists of 35 members from the State's business community and CSU's trustees and includes the chancellor. The foundation's mission is to enhance the educational effectiveness of CSU and the administrative effectiveness of the chancellor and campus presidents. To realize its mission, the foundation's objectives include establishing a fund-raising and development program for CSU and serving special funding needs of the Chancellor's Office and CSU.

**The
Foundation
Has Followed
CSU Policies
and
Procedures**

The California Education Code, Section 89900(c), requires that auxiliary organizations operate in conformity with regulations established by the trustees and that accounting procedures for such organizations be approved by the Department of Finance. CSU has developed a manual, reviewed by the Department of Finance, which outlines administrative and accounting policies and procedures for auxiliary organizations. Based on our review, the foundation's accounting procedures comply with CSU's requirements. In addition, the California Education Code, Section 89900(a), requires the foundation receive an annual audit by a Certified Public Accountant (CPA). The CPA's audit included tests of the accuracy of cash receipts and disbursements, tests of authority for transactions, and a review of internal controls and compliance with specific state laws and CSU's policies and procedures. The audit reports are distributed to the trustees and to the Department of Finance. For fiscal years 1987-88 through 1989-90, the CPA's financial audit reports, reports of internal control, and reports of compliance with specific procedures, did not disclose any material weaknesses in the foundation's operations. In addition, we reviewed the CPA's workpapers and did not identify any unreported material weaknesses relevant to the accuracy of CSU's accounting records, its internal controls, or its compliance with specific procedures.

Further, based on our review, the purpose of foundation contracts has met the educational mission of CSU. Based on our testing of selected expenditures from the foundation's general operating fund, the chancellor's discretionary spending account, and the University House account, foundation expenditures have conformed with CSU's policies and procedures. Expenditures from the chancellor's discretionary spending account, which is money budgeted by the foundation for the chancellor to use for community relations and entertainment, did include a payment to a caterer for services at a CSU activity at the University House and a purchase of liquor. According to the State Controller's Office, no legal authority exists for the State Controller's Office to pay a claim for a purchase of alcoholic beverages. However, as a private entity formed under the State's nonprofit corporation law, the foundation is not required to comply with state purchasing procedures.

The California Education Code, Section 89904, requires that the governing board of an auxiliary organization approve all appropriations and expenditures. Based on our review of minutes of the quarterly meetings of the foundation's Board of Directors, the Board of Directors has approved the expenditures and appropriations, including University House expenditures.

**The Foundation
Has Grown
To Meet the
Educational
Mission of CSU**

The foundation has grown as a result of increased revenues from contracts, grants, and donations. The purpose of these contracts, grants, and donations appears to have met the educational mission of CSU. (The following numbers and percentages are approximate.) The foundation's revenues have increased from \$3 million to \$4.2 million from July 1, 1987, to June 30, 1990, an increase of 41 percent. During the same period, expenditures increased from \$2.6 million to \$4 million, an increase of 54 percent, and the foundation's fund balance increased from \$1.9 million to \$2.7 million, an increase of 44 percent.

As shown in Table 4, the 41 percent increase in revenues is due primarily to the \$1 million increase in contracts and grants and the \$100,000 increase in donations. The foundation's annual report for fiscal year 1989-90 stated that 100 percent of all gifts go directly to projects. As shown in Table 4, the 54 percent increase in expenditures is due primarily to the \$1 million increase in costs related to contracts and grants and to the \$400,000 increase in costs related to special programs. The foundation's expenditures include operating expenses and the costs of staff time spent in the development and administration of grants, scholarships, or special projects.

Table 4 The Foundation's Growth in Revenues, Expenditures, and Fund Balance for Fiscal Years 1987-88 Through 1989-90

	Fiscal Year 1987-88	Fiscal Year 1989-90	Increase (Decrease)	Percent Change
Revenue				
Contracts and grants	\$2,273,754	\$3,323,952	\$1,050,198	46%
Donations	189,214	298,673	109,459	58
Overhead recovery	352,310	383,891	31,581	9
Interest	117,849	163,109	45,260	38
Other	31,034		(31,034)	(100)
Total Revenue	2,964,161	4,169,625	1,205,464	41
Expenditures				
Contracts and grants	1,225,770	2,314,663	1,088,893	89
Special programs	813,254	1,232,212	418,958	52
Administrative	307,735	216,392	(91,343)	(30)
Depreciation	219,052	136,148	(82,904)	(38)
Loss on disposal of assets	583	57,209	56,626	9,713
Total Expenditures	2,566,394	3,956,624	1,390,230	54
Excess (Deficiency) of Revenue Over Expenditures	397,767	213,001	(184,766)	(46)
Fund Balances, Beginning	1,856,561	2,455,734	599,173	32
Fund Balances, Ending	\$2,254,328	\$2,668,735	\$ 414,407	18
Growth in Fund Balance From July 1, 1987 to June 30, 1990			\$ 812,174	44

Source: Audited financial statements prepared by Windes and McClaughry, CPAs.

The educational mission of CSU includes advancing knowledge and learning, especially throughout California. An example of an increase in grants and sponsored projects whose purpose has met this mission is the California Technology Project, funded by the California State Department of Education. The project provides technical assistance to public schools for designing and implementing the use of educational technology. Coordinated by a project director, the California Technology Project consists of volunteer regional resource council coordinators; other educational agencies and subcontractors who will serve as directors of pilot projects in literature, mathematics, and writing; county education offices who provide software and video clearinghouse services; and scholars. The first project contract had a total award of \$880,000 and extended from February 1989 through September 1990. The second project contract had a total award of \$1 million and extended from January 1990 through September 1990. Generally, the foundation charges between 8 and 15 percent of the grant and contract awards for the development and administrative services it performs. The foundation uses these earnings to pay some of its general administrative costs as well as some of the expenditures of the chancellor's discretionary spending account and University House.

**Funding for
Discretionary
Spending and
the University
House Appears
Appropriate**

The foundation appears to have appropriately provided funding for an account used by the chancellor for discretionary spending and appears to have appropriately provided funding to maintain the University House. The foundation Bylaw Article XI, Section 7b, states that the Chancellor's Committee of the Board of Directors shall review and recommend allocations of the general operating fund to the chancellor's discretionary spending account and assist in the support of the University House. The Board of Directors has approved the budgets and related expenses for fiscal years 1987-88 through 1989-90. However, the foundation hired a University House maid on behalf of the Chancellor's Office and was reimbursed by the Chancellor's Office, an arrangement that did not comply with CSU's personnel, budgetary, and normal contract procedures. See further discussion in Chapter 4.

The chancellor appears to have used the discretionary spending account and the University House to entertain friends of CSU, to enhance its academic reputation, and to encourage private support of CSU. From July 1, 1987, to June 30, 1990, the foundation provided approximately \$65,000 to the chancellor for discretionary spending and, as shown in Table 3 in Chapter 4, approximately \$85,000 for the support of the University House. We reviewed 57 disbursements for the chancellor's discretionary spending account, for support of the University House, and for the general expenses of the foundation and found that all met the expenditure guidelines set by CSU's policies and procedures.

**The
Foundation
Was Not
Regularly
Reviewed**

Although we found the operations of the foundation in compliance with CSU's policies, rules, and regulations, the Chancellor's Office has not regularly performed an internal compliance review of the foundation. The Chancellor's Executive Order, 381, requires an appropriate officer of the Chancellor's Office to perform an internal compliance review at least once every three years. The purpose of the review is to determine whether the organization is complying with CSU's policies, rules, and regulations. CSU's Controller's Office completed a review of the foundation in January 1991 and did not identify any material weaknesses. The Chancellor's Office had completed the previous review in fiscal year 1981-82. According to CSU's current executive vice chancellor, the Chancellor's Office did not perform reviews from fiscal year 1982-83 through 1989-90 because the foundation had been extensively reorganized from 1982 through 1986, and a review of its operating practices would not have been beneficial. If the Chancellor's Office does not regularly perform internal compliance reviews of the foundation, it cannot ensure that the foundation operates in accordance with CSU's policies and procedures.


Conclusion The expenditures of California State University Foundation appear to have met the educational mission of the California State University. The foundation has been established as a nonprofit corporation whose mission is to enhance the effectiveness of CSU. Its growth can be attributed to increased revenues from grants and other funds. The purpose of these grants and other funds appears to have met the educational mission of CSU. Further, the foundation appears to have properly provided funding for the chancellor's discretionary spending account and for support of the State University House. However, the Office of the Chancellor has not regularly performed internal compliance reviews of the foundation.

Recommendation To ensure that the expenditures of the California State University Foundation meet the educational mission of the California State University, the Office of the Chancellor should take the following action:

- Regularly perform an internal compliance review of the foundation to ensure that the foundation operates within CSU's policies and procedures.

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,


KURT R. SJOBERG
Auditor General (acting)

Date: March 11, 1991

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OFFICE OF THE CHANCELLOR
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February 28, 1991

Mr. Kurt R. Sjoberg
Auditor General (Acting)
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Re: Response of the California State University to your report entitled
"A Review of Some Administrative Functions of the California State
University"

Dear Mr. Sjoberg:

We have received your report F-050 entitled "A Review of Some Administrative Functions of the California State University" dated March 1991. I was advised of this review in your letter to me of September 4, 1990, which indicated that the review was pursuant to language in the Supplemental Report of the 1990 Budget Act.

Your staff began this review on September 20, 1990, conducting an entrance conference and spending two days interviewing Chancellor's Office staff. Between that time and February 8, 1991, the date of the final exit conference held here in the Chancellor's Office, your staff spent approximately eight weeks performing fieldwork here on site in the Chancellor's Office, working with documentation provided by our staff. Of course, this is in addition to the preparations and other work required by such a review and performed in your offices in Sacramento. As a result, we believe that this has been an extremely thorough, comprehensive review of certain aspects of the administrative budget of the California State University. We wish to commend the professional manner in which your staff conducted itself at all times during this review.

We will respond to your recommendations as they are presented in the report, with a restatement of your recommendation followed by the response of the California State University.

CHAPTER I: The Budget of the California State University and Supporting Detail Provide Adequate Information on Administrative Funding for the Areas We Reviewed.

RECOMMENDATION:

No recommendation is made, given the above conclusion.

RESPONSE:

We note that the Auditor General's report states that CSU's budgeting practices and policies allow for adequate scrutiny of the administrative funding included in its budget. This validation of the processes is the result of extensive review, and we are pleased that the review has reached such a conclusion.

CHAPTER II: We Found No Evidence that the California State University Has Provided Inappropriate Funding for Administrative Purposes at the Systemwide Office.

RECOMMENDATION:

To ensure that it processes budget transfers in accordance with state laws and regulations, the California State University should take the following action:

- Include in its quarterly reports to the Legislature all budget transfers that the Education Code, Section 89753, requires.

RESPONSE:

We concur with the recommendation, noting that the review found only four omissions of those reviewed. As the report indicates, we have reemphasized the need for care in preparing the quarterly reports of transfers.

CHAPTER III: The California State University's Board of Trustees Has Not Consistently Complied with Open Meeting Laws.

RECOMMENDATIONS:

To improve its compliance with the Bagley-Keene Open Meeting Act, the Board of Trustees should take the following actions:

- Discuss in closed meetings only the issues allowed by the act;
- Address in closed meetings only the topics they had announced to justify closing the meetings;

- Ensure that minutes are taken for each closed session and are kept in a minute log. For meetings that are cancelled, the Chancellor's Office should note that condition in the minute log; and
- Continue with their current efforts to comply with the act.

RESPONSE:

The four recommendations in Chapter III are accepted. The first three reflect requirements of the Bagley-Keene Open Meeting Act. The recommendation to note the cancellation of meetings in the minute book, although not required in the law, is a constructive recommendation and will be followed. The last recommendation recognizes the Board's current efforts to comply with the Act, and these efforts will, of course, be continued.

CHAPTER IV: The Office of the Chancellor Appears to Have Adequately Administered Support for the University House Except for the Employment of the Maid.

RECOMMENDATION:

To ensure that it adequately administers expenditures in support of the State University House, the Office of the Chancellor should take the following action:

- Follow its personnel and budgetary procedures for establishing and appointing employment positions. In addition, it should follow its normal contract procedures when procuring services.

RESPONSE:

We concur with the recommendation and will ensure that all expenditures related to any State University House follow normal CSU personnel, budget, and contract procedures. The instance cited in the review does indeed represent an exception to prevailing practices in this regard.

CHAPTER V: Expenditures of the California State University Foundation Appear to Have Met the Educational Mission of the California State University.

RECOMMENDATION:

To ensure that the expenditures of the California State University Foundation meet the educational mission of the California State University, the Office of the Chancellor should take the following action:

Mr. Kurt R. Sjoberg
February 28, 1991
Page Four

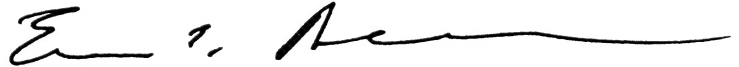
- Regularly perform an internal compliance review of the foundation to ensure that the foundation operates within CSU policies and procedures.

RESPONSE:

The Education Code requires an annual financial audit of the CSU Foundation by a certified public accountant. These audits have been regularly completed on an annual basis. In addition, a CSU policy requires an internal compliance review as noted in this recommendation. This internal compliance review for fiscal years 1987/88 through 1989/90 was completed by the CSU Controller's Office in January of 1991, and no material weaknesses were noted. In the future, internal compliance reviews of the CSU Foundation will be scheduled on a regular basis in accordance with the CSU Chancellor's Office Executive Order 381. The next compliance review will be performed in September 1993.

We appreciate your providing us with this opportunity to respond to the recommendations contained in this review.

Sincerely,



Ellis E. McCune
Acting Chancellor

EEMcC:db

cc: Dr. Herbert L. Carter, Executive Vice Chancellor
Mr. D. Dale Hanner, Vice Chancellor, Business Affairs
Mr. Bruce M. Richardson, Acting General Counsel

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps